

## Message Text

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PAGE 01 LISBON 02584 062006Z  
ACTION EUR-12

INFO OCT-01 ISO-00 ABF-01 FS-01 AGRE-00 AID-05 CIAE-00  
COME-00 EB-08 FRB-03 INR-10 NSAE-00 ICA-11  
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01  
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P R 061405Z APR 78  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC PRIORITY 5348  
INFO AMCONSUL OPORTO POUCH  
AMCONSUL PONTA DELGADA POUCH

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C O R R E C T E D C O P Y (TEXT)

E.O. 11652: N/A  
TAGS: ECON, EFIN, ELAB, PO  
SUBJECT: GOP ANNOUNCES MINIMUM WAGE, PENSION AND MARKET  
BASKET INCREASES

1. PRIME MINISTER MARIO SOARES, IN A STATEMENT TO THE PRESS  
ON APRIL 5, ANNOUNCED INCREASES IN MINIMUM WAGES, RETIREMENT  
PENSIONS, AND UNEMPLOYMENT BENEFITS.  
--THE NEW MINIMUM MONTHLY SALARY FOR NON-ARGICULTURAL WORKERS  
IS TO BE 5700 ESCUDOS (\$139., AT 41 ESC/US DOLLAR) AN INCREASE  
OF 26.7 PERCENT OVER THE LEVEL OF 4500 ESCUDOS (\$110.). THE  
NEW MINIMUM WAGE FOR RURAL WORKERS IS 4600 ESCUDOS (\$112.), UP  
31.4 PERCENT FROM THE CURRENT LEVEL OF 3500 ESCUDOS (\$85).  
-- THE NEW MAXIMUM MONTHLY GROSS SALARY RISES FROM 50,000 TO  
60,000 ESCUDOS (\$1220 TO 1463). SOARES NOTED THAT THIS RELATIVELY  
LARGE INCOME WAS REQUIRED IN ORDER TO ATTRACT QUALIFIED  
PERSONNEL. HE CLAIMED, HOWEVER, THAT TAXES WILL ACTUALLY  
KEEP THE NET MAXIMUM AT CLOSE TO 35,000 ESCUDOS (\$854) PER MONTH.

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PAGE 02 LISBON 02584 062006Z

--RETIREMENT PENSIONS FOR NON-AGRICULTURAL WORKERS WILL GO  
FROM 2250 TO 2750 ESCUDOS (\$55 TO 68.) PER MONTH, AN INCREASE OF  
22.2 PERCENT. FOR RURAL WORKERS, THE NEW PENSIONS WILL BE  
1100 ESCUDOS (27 DOLS.) PER MONTH FOR BOTH MALES AND FEMALES,  
WHICH PREVIOUSLY WERE 900 AND 600 ESCUDOS (22 DOLS. AND 15 DOLS.)  
RESPECTIVELY. PENSIONS FOR DOMESTICS WILL RISE FROM 2000 TO  
2250 ESCUDOS (49-55 DOLS.).

--MONTHLY UNEMPLOYMENT BENEFITS WILL INCREASE 24.4 PERCENT FROM 3375 TO 4200 ESCUDOS (82 TO 102 DOLS.) FOR WORKERS WITH FAMILIES AND 18.5 PERCENT FROM 2700 TO 3300 ESCUDOS (66 TO 80 DOLS.) FOR THOSE WITHOUT DEPENDENTS.

2. THE GOVERNMENT HAS DECIDED ALSO TO CHANGE THE MINIMUM DURATION OF COLLECTIVE CONTRACTS FROM 18 MONTHS TO 12 MONTHS SO THAT WAGES CAN BE ADJUSTED TO TAKE ACCOUNT OF INFLATION TRENDS.

3. MINISTER OF COMMERCE AND TRADE BASILIO HORTA WILL ANNOUNCE APRIL 7 NEW PRICES FOR "MARKET BASKET" ITEMS. THE AVERAGE INCREASE REPORTEDLY WILL BE 20.6 PERCENT. PRIME MINISTER SOARES WILL PROBABLY ADDRESS THE NATION NEXT WEEK, FOLLOWING CONCLUSION OF THE ASSEMBLY'S DEBATE ON THE 1978 BUDGET, TO EXPLAIN GOVERNMENT'S ECONOMIC PROGRAM.

4. SOARES, FIRMLY DEFENDING HIS GOVERNMENT'S ECONOMIC POLICIES, STATED THAT WORLDWIDE ECONOMIC DIFFICULTIES, LOSS OF THE FORMER COLONIES, AND PORTUGAL'S HUGE EXTERNAL DEFICIT WERE LARGELY RESPONSIBLE FOR THE PRICE INCREASES. DECISION THAT MARKET BASKET PRICES WILL RISE ONLY SOME 20 PERCENT IS AN EVIDENT ATTEMPT TO COUNTERACT GROWING CRITICISM OF THE ANNOUNCED 20 PERCENT MAXIMUM SALARY INCREASES PERMITTED BY GOP WAGE POLICY. THE RELATIVELY CONSTRAINED RISE IN MARKET LIMITED OFFICIAL USE

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PAGE 03 LISBON 02584 062006Z

BASKET PRICES MAY, HOWEVER, IMPLY THE NEED FOR LARGER THAN EXPECTED CONSUMER SUBSIDIES. NEVERTHELESS, THE GOP'S CONTINUING PREDICTION OF A 1978 INFLATION RATE OF 20 PERCENT STILL APPEARS UNREALISTIC.

5. THE ANNOUNCED RISE IN MINIMUM SALARIES AND PENSIONS WILL HAVE LIMITED, BUT NEGATIVE, EFFECTS ON INFLATION RATE AND BALANCE OF PAYMENTS. NEW MINIMUM WAGES WILL HAVE LITTLE PRACTICAL EFFECT SINCE MOST WAGE RATES, ESPECIALLY WITH CONTRACT RENEWALS THIS YEAR, WILL BE WELL ABOVE THIS LEVEL. INCREASES IN PENSION AND UNEMPLOYMENT BENEFITS, HOWEVER, WILL CONSTITUTE SIGNIFICANT BUDGETARY DRAIN. PERHAPS MOST DAMAGING OVER THE MEDIUM TERM IS THE REDUCTION IN LONGEVITY AND LABOR AGREEMENTS FROM 18 TO 12 MONTHS, A CHANGE FORCEFULLY ESPOUSED BY LABOR REPRESENTATIVES, THIS SHIFT WOULD PERMIT A FASTER UPDATE OF WAGES, WHICH THE UNIONS WILL STRONGLY URGE LATER THIS YEAR WHEN EVERYONE ACKNOWLEDGES THAT THE INFLATION RATE WILL DEFINITELY SURPASS 20 PERCENT.

6. GOP DECISIONS ANNOUNCED BY SOARES ARE EVIDENTLY DESIGNED TO LIMIT THE BUILDUP OF SUCH PRESSURES AND TO PROVIDE A READY MECHANISM FOR DEALING WITH THEM WHEN THEY CAN NO LONGER

BE IGNORED, WHICH COULD BE AS EARLY AS THIS FALL. THE ECONOMIC  
COSTS OF THE POLICIES, HOWEVER, MAY PROVE EXPENSIVE IF NOT  
OFFSET BY OTHER BUDGETARY AND FINANCIAL POLICIES.  
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## Message Attributes

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